

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

FISCAL ANALYSIS MEMORANDUM

[This confidential fiscal memorandum is a fiscal analysis of a draft bill, amendment, committee substitute, or conference committee report that has not been formally introduced or adopted on the chamber floor or in committee. This is not an official fiscal note. If upon introduction of the bill you determine that a formal fiscal note is needed, please make a fiscal note request to the Fiscal Research Division, and one will be provided under the rules of the House and the Senate.]

DATE: September 22, 2015

TO: House Finance Committee

FROM: Rodney Bizzell
Fiscal Research Division

RE: PCS to 605 v. 4

FISCAL IMPACT

(\$ in millions)

☒ **Yes**

☐ **No**

☐ **No Estimate Available**

State Impact	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
General Fund Revenues:					
Allow deduction for gambling losses permitted on Schedule A	-0.5	-3	-3	-3	-3
Delay collection of sales tax on live entertainment	\$0.0 to -12	See assumptions and methodology			
Expand 1%/\$80 tax rate to ready-mix concrete	No estimate available - see assumptions and methodology				
Expand 1%/\$80 tax rate to secondary metal recyclers	Minimum first-year cost of \$1.5 m; unknown impact in subsequent years.				
Expand 1%/\$80 tax rate for ports facilities	Minimal Impact				
Expand 1%/\$80 tax rate to secondary metal fabricators	General Fund revenue loss of \$4.8 to \$8.4 million annually.				

Local Impact					
Delay collection of sales tax on live entertainment	\$0.0 to -5				
Expand 1%/\$80 tax rate to ready-mix concrete	No estimate available - see assumptions and methodology				
Expand 1%/\$80 tax rate to secondary metal recyclers	Minimum first-year cost of \$0.6 m; unknown impact in subsequent years.				
Expand 1%/\$80 tax rate to secondary metal fabricators	Local revenue loss of \$1.2 to \$2.4 million annually.				
Local Option Sales Taxes for Counties	No estimate available - see assumptions and methodology				
Local Option Sales Taxes for Cities	No estimate available - see assumptions and methodology				

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECT NC Department of Revenue

EFFECTIVE DATE: Various

TECHNICAL CONSIDERATIONS:

None

BILL SUMMARY:

Five provisions in the bill are estimated to have a material fiscal impact:

- Section 2.1 allows the deduction for gambling losses as allowed on Federal Form 1040 Schedule A.
- Section 3.23 delays the remittance of sales tax revenue collected on gross receipts from entertainment activity until the event occurs. Currently, the remittance is based on when the sales tax is collected by the taxpayer.
- Section 3.24 exempts from sales tax repair and replacement parts for equipment used by ready-mix concrete manufacturers. The parts would be subject to tax under Article 5F: 1% rate with an \$80 cap per article.
- Section 3.26 exempts from sales tax fuel, electricity, machinery, equipment and other tangible personal property used by secondary metal recyclers. The parts and equipment would be subject to tax under Article 5F: 1% rate with an \$80 cap per article. This section would become effective retroactively to July 1, 2010.
- Section 3.28 exempts from sales tax parts, attachments and accessories for specialized equipment used at ports facilities. The equipment would be subject to tax under Article 5F: 1% rate with an \$80 cap per article.
- Section 5.11 exempts from sales tax equipment used in the fabrication of metal products or used to create equipment for the fabrication of metal products. The equipment would be subject to tax under Article 5F: 1% rate with an \$80 cap per article.
- Part VI establishes a new local sales and use tax option of up to ½-cent for education, maintains the current authorization with regard to the Article 43 local option sales tax for transportation purposes, and increases from ¼% to ½% the rate at which counties may levy a tax for general purposes. A county may levy any combination of the three local option sales and use taxes so long as the total local sales and use tax rate does not exceed the current cap. For 6 counties, the current cap is 2.75%; for the other 94 counties, the current cap is 2.5%.
- Part VII would authorize cities to levy a one-quarter cent (1/4%) local option sales and use tax without a referendum. A city may use the proceeds for any public purpose.
- Part VIII makes a number of changes to the laws pertaining to the NC Medical Board. The bill makes the following fee changes:
 - It increases from \$350 to \$400 the fee for an application for a license to practice medicine and surgery.
 - It increases the annual registration fee from \$175 to \$250.
 - It repeals the \$25 fee for a retired limited volunteer license.

ASSUMPTIONS AND METHODOLOGY:

Section 2.1: Deduction for Gambling Losses

The estimate is based on tax data using the Bearing Point Tax Model.

Section 3.23: Sales tax revenue collected on entertainment activity

The proposal would delay receipt of part of the sales tax revenue collected by taxpayers until a subsequent fiscal year. The upper range of the estimate for FY 2015-16 begins with data on the 3% privilege tax imposed on live entertainment under G.S. 105-37.1 through 2013. Effective January 1, 2014, these transactions are subject to the general sales tax. Therefore, collection amounts were adjusted based on the State sales tax rate of 4.75% and assume a 2% local tax rate. The upper limit of the range estimate assumes that up to 50% of revenues are from advance ticket sales. The fiscal impact in years subsequent to FY 15-16 is the unknown carrying cost to the State of delaying revenue collection.

Section 3.24: Expand 1%/\$80 Rate for Ready-mix Concrete Manufacturers

Under current law, repair and replacement parts for ready-mix concrete mills affixed to a vehicle are subject to the state and local sales tax. Subjecting these purchases to the Article 5F 1%/\$80 privilege tax would reduce the amount of revenue the State receives. Local governments do not receive any portion of the Article 5F tax. The Department of Revenue is unable to estimate the amount of sales tax received from the ready-mix repair and replacement part purchases; therefore, no estimate is available for the fiscal impact of the proposed change.

Section 3.26: Expand 1%/\$80 Rate for Secondary Metal Recyclers

The Department of Revenue has identified \$1.5 million in assessments dating to 2010 that would be affected by the retroactive effective date of July 1, 2010. Therefore, the fiscal estimate for the first year of the change would be at least \$1.5 million. Additional taxpayers that have paid the regular sales tax rate since 2010 and are not under audit may also seek a refund, however, the potential impact of these refunds are unknown.

Section 3.28: Expand 1%/\$80 for Ports Facilities

The amount of sales tax collected for attachments and accessories for equipment that currently qualifies for 1%/\$80 treatment at ports facilities is unknown, however the impact is expected to be minimal.

Section 5.11: Expand 1%/\$80 for Metal Fabricators

Expanding Article 5F, the 1% or \$80 privilege license tax for mill machinery will reduce General Fund Availability by \$4.2 - \$ 8.4 million per fiscal year. Local revenues are reduced by \$1.2 - \$2.4 million. Fiscal Research relied on data from the 2012 Economic Census (EC) and the Annual Capital Expenditures Survey (ACES) to estimate the fiscal impact of expanding the preferential rate provided to mill machinery to metal fabricators.

According to the 2012 Economic Census, these North Carolina industries made an investment of \$275 million in capital. The ACES provides data at the national level on capital spending for new

and used structures and equipment by all U.S. nonfarm businesses. A majority, 80.84% of all manufacturing capital expenditures were associated with the cost of equipment. Fiscal Research applied this percentage to capital investment purchases in the metal fabrication industry to estimate the net amount expended on equipment used in the fabrication process.

After estimating the amount spent annually on manufacturing equipment for the metal fabrication industry, Fiscal Research calculated the difference between current sales tax collections and projected collections under Article 5F, the 1%/\$80 tax. The Department of Revenue indicates the many metal fabricator purchases may already be taxed at the 1%/\$80 rate. Therefore, a range estimate was developed assuming that between 50% and 100% of purchases are taxed at the general sales tax rate. The amount of tax that would be collected at the 1%/\$80 rate is subtracted from the range sales tax estimate to determine the net revenue loss. The local sales tax loss is calculated using the same methodology assuming a current sales tax rate of 2%.

Part VI: Local Option Sales Tax for Counties

Because the local option sales taxes provided for in the PCS are subject to county or voter approval, the additional revenue available to counties is unknown. A separate chart is provided to show the revenue generated by a 1/2-cent increase in each county, however, the chart does not take into account that some counties cannot raise the rate a 1/2-cent without hitting the cap.

Part VII: Local Option Sales Tax for Cities

Because no city currently levies a sales tax, no data is available to determine the amount of tax that would be distributed to cities that levy the additional 1/4-cent sales and use tax.

Part VIII: Amend Laws Pertaining to NC Medical Board

The proposed list of North Carolina Medical Board fee changes are displayed in the table below.

H543 - Proposed Fee Changes		
Fee	Current	Proposed
License Application Fee	\$350.00	\$400.00
Annual License Registration Fee	\$175.00	\$250.00
Retired Limited Volunteer Licence - Annual Registration Fee	\$25.00	\$0.00

The North Carolina Medical Board provided the Fiscal Research Division with data covering FY2013-14. They reported 2,318 M.D. and D.O. applications, 35,240 annual license registrations, and 67 retired limited volunteer licenses.

It's estimated that for FY2015-16, House Bill 543 would generate \$2,757,225 in additional fee revenue for the NC Medical Board. This assumes the same level of applications and licenses as were reported in FY2013-14.

Fee Data provided by NC Medical Board			
	Number of Instances	Fee Difference	Revenue Impact
License Application Fee	2,318	\$50	\$115,900
Annual License Registration Fee	35,240	\$75	\$2,643,000
Retired Limited Volunteer Licence - Annual Registration Fee	67	(\$25)	(\$1,675)
Total Impact			\$2,757,225

The occupational projections from the North Carolina Department of Commerce estimate an average increase in the number of physicians and surgeons as being approximately 2.0% yearly from 2012 through 2022. The yearly number of application and registration instances has been grown using those projections.

North Carolina Medical Board Fiscal Impact (\$ in millions)					
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Revenues	\$2.8	\$2.8	\$2.9	\$2.9	\$3.0

SOURCES OF DATA: North Carolina Department of Revenue; North Carolina Medical Board; North Carolina Department of Commerce

TECHNICAL CONSIDERATIONS: None

